

Economy Watchers Survey

December 2007

OVERVIEW OF THE MONTH

The DI for current economic conditions in December dropped 2.2 points from the previous month to 36.6.

The household activity-related DI dropped due to the continuing rise in gasoline, kerosene and food prices as well as the disappointing results of the year-end sales battle. The corporate activity-related DI dropped due to the continuing impact of rising crude oil and raw material prices. The employment-related DI dropped due to ongoing declines in new job offers. As a result, the current DI dropped for the ninth month in a row, falling below the neutral indicator of 50 points for the ninth consecutive month.

The DI for future economic conditions in December dropped 1.8 points from the previous month to 37.0.

The DI for future economic conditions dropped for the eighth consecutive month due to concerns in the household sector over weakened consumer confidence stemming from higher gasoline, kerosene and food prices, as well as concerns in the employment sector over ongoing declines in new job offers.

On the whole, the assessments of the Economy Watchers indicate that the feeling of economic recovery has been extremely weak.

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by the Director-General for Economic Assessment and Policy Analysis,
Cabinet Office
Kasumigaseki 3-1-1, Chiyoda-ku, Tokyo 100-8970
Telephone: 03-3581-1392
Internet: <http://www.cao.go.jp>

**SUMMARY OF CHARACTERISTIC REASONS FOR THE
ASSESSMENT OF THE ECONOMY**

(Assessments) **A**, Better; **B**, Slightly better; **C**, Unchanged; **D**, Slightly worse; **E**, Worse

1. Current conditions

Household activity

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| B | <ul style="list-style-type: none"> Although customers usually tend to be quite frugal, they are spending money more freely at Christmas and over the New Year's holiday. (Kinki: Supermarket) |
| C | <ul style="list-style-type: none"> There was a sense of lack of excitement during the end-of-the-year party season and on Christmas, and there has even been a downturn in business on the weekends. Although rising prices have led to a decline in the number of passengers, the hike in unit price has led to increased sales. (Southern Kanto: Taxi driver) It was business as usual up until around the 20th of the month, but each day thereafter we had a great number of reserved parties and customers entertaining business clients. This resulted in slightly higher than average sales. In addition, our customers made grim comments such as "I didn't receive a bonus" and "retail sales have dropped." (Hokuriku: Bar) |
| D | <ul style="list-style-type: none"> With the sudden jump in crude oil prices, some customers are steering clear of travel due to the fact that additional fees for long-distance air travel can exceed upwards of 30,000 yen. The steep rise in kerosene prices has also made a bad impact. (Tokai: Travel agency) Year-end-gift and Christmas sales battles, which just recently came to a close, posted year-on-year losses. Many customers were concerned about shipping costs for year-end gifts, and we really struggled with sales of high-ticket items such as handbags and accessories at Christmas. Due in part to the steep rise in prices of various commodities, consumer price awareness is becoming even stronger. (Chugoku: Department store) |

Corporate activity

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| C | <ul style="list-style-type: none"> We were finally able to simultaneously conclude three private residence contracts for the first time since changes were made to building certification application procedures. However, since these orders were received due to the postponement of construction, we simply do not feel that the economy is actually recovering. (Kyushu: Construction industry) The actual amount of goods we handle is on a slight upward trend, and shippers are continuing to attempt to reduce their physical distribution costs. With our customers still facing rising procurement prices from manufacturers and increased social recognition of the deterioration of profits in all industries due to the sudden rise in crude oil prices, we are trying to find the right timing to raise our own prices. (Okinawa: Transport industry) |
| D | <ul style="list-style-type: none"> Despite the fact that soybean prices finally went up by more than 40% this month, we were unable to shift this price increase to major supermarkets to the extent we would like and therefore found ourselves in the red. The price hike for materials accounts for 10% of our total sales, and our situation is becoming extremely grave. (Northern Kanto: Food manufacturing industry) The price of raw materials continues to increase and we are therefore unable to earn a profit. In addition, resistance by retailers is strong and price revisions have been delayed. The effect of the rise in crude petroleum prices has been particularly significant. (Shikoku: Finance industry) |
| E | <ul style="list-style-type: none"> The year-end sales battle was gruelling, few ads were run for New Year's sales, and all companies appear to be fighting against heavy odds. In particular, we have seen a sharp decline in the number of ads run for amusement centers, such as pachinko and real estate companies. (Tohoku: Advertising agencies association) |

Employment

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| C | • Requests for sales personnel for the New Year's holiday are not as high as usual. There has also been an increase in instances of "successor unnecessary following contract expiration" for office work staff dispatches. (Kyushu: Private employment agency) |
| D | • Although we are usually swamped at the beginning of the month with newly received job offers as well as the update process for job offers for which the referral deadline has passed, we have recently begun to notice that we have less paperwork than before. This, in turn, has given us the impression that job offers are on the decline. (Hokuriku: Public employment security office) |
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2. Future conditions

Household activity

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| C | <ul style="list-style-type: none"> Although tour bookings from distant places for January through March have been relatively favorable, we are keeping our forecasts conservative for local customers due to the ongoing economic downturn. (Tohoku: Japanese inn for tourists) Sales of game consoles had been favorable and the future seemed bright, but things began to tone down during the Christmas selling season. With the increase in gasoline and other prices among other factors, consumers are simply unwilling to spend money on video games. We do not foresee this situation improving in the near future. (Southern Kanto: Other leisure facilities [Amusement]) |
| D | <ul style="list-style-type: none"> Rising prices of gasoline etc. have curbed the desire of consumers to dine out. The number of night-time customers and the amount of sales are down 10% from last year. Orders received for traditional New Year dishes, however, were favorable and up by approximately five percent from last year. Although the number of group party reservations for January onward remains unchanged from the previous year, the unit price of food and number of participants are both down from last year, and we therefore expect sales to be down by approximately 10%. (Northern Kanto: General restaurant) Since our sales were lackluster during what should have been our biggest season of the year, we are concerned about January and February. The steep rise in the price of kerosene has led to a drop in production output, and shortages continue. (Shikoku: General retail shop [Florist]) |

Corporate activity

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| C | <ul style="list-style-type: none"> Since we have already received orders for February and March, there should be no problems in terms of the operation of our factory. However, with prices still on the rise for oil-related raw materials, we feel that the effect of this on cost has also reached its limit. (Northern Kanto: Chemical industry) Despite there being cause for concern due to the sudden jump in construction costs etc., there is still demand, and it may be possible to maintain current economic conditions for the next two or three months with the help of a little ingenuity, e.g. reconsideration of expenses and careful selection. (Southern Kanto: Real-estate industry) |
| D | <ul style="list-style-type: none"> In addition to hovering fuel costs for trucks, prices for tires, seats and vehicles are all on the rise. Even so, customers are only allowing us to raise our prices to cover the increase in fuel costs. Converting this to freight charges means a one- to two-percent price increase. These harsh circumstances are expected to continue. (Tokai: Transport industry) We have heard word of a potential increase in the price of iron materials in April of next year. Since the extent of this price increase is bigger than we had anticipated, we will have no choice but to approach our customers about raising prices. However, such negotiations will be rather difficult due to the fact that growth of orders received for our customers has begun to slow. (Chugoku: Metal product manufacturing industry) |

Employment

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| C | <ul style="list-style-type: none"> Concerns over rising crude oil prices have not had a significant effect on the demand for dispatch of temporary personnel. (Kinki: Temporary staffing company) |
| D | <ul style="list-style-type: none"> Job offers for the construction and freight transportation/physical distribution industries have witnessed a decrease of more than 20% over the previous year. Meanwhile, year-on-year declines are also continuing for the retail and restaurant industries. Favorable industries include temporary staffing and call centers, which are centered on indirect hiring. Significant changes to this trend are not expected. (Hokkaido: Job advertisement magazine production company) |